

# **REPORT OF THE AUDITOR-GENERAL ON KAKAMEGA COUNTY ALCOHOLIC DRINKS CONTROL FUND FOR THE YEAR ENDED 30 JUNE, 2021**

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## **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Kakamega County Alcoholic Drinks Control Fund set out on pages 21 to 53, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kakamega County Alcoholic Drinks Control Fund as at

30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and Kakamega Alcoholic Drinks Control Act, 2014.

## **Basis for Qualified Opinion**

### **1. Unsupported Transfers from County Government**

The statement of financial performance reflects a balance of Kshs.8,675,621 being transfers from the County Government which, as disclosed in Note 1 to the financial statements, comprises an amount of Kshs.2,073,220 and Kshs.6,602,401 being receipts from the Kenya Devolution Support Programme implemented by the State Department for Devolution and Kakamega County Government Department for Public Service, Youth and Gender respectively. However, the transfers were not supported by any documentation and the amounts were not reflected in the Fund's cash book and bank account.

In the circumstances, the accuracy, completeness and validity of the balance of Kshs.8,675,621 could not be confirmed.

### **2. Property, Plant and Equipment**

The statement of financial position reflects a balance of Kshs.781,081 under property, plant and equipment. However, as disclosed in Note 7 to the financial statements, the amount excludes depreciation expense for the year for computers.

In addition, the financial position and supporting schedules of property, plant and equipment reflect balances of Kshs.781,081 and Kshs.1,473,560 respectively thus resulting to an unexplained variance of Kshs.682,479.

In the circumstances, the accuracy of the property, plant and equipment balance of Kshs.781,081 could not be confirmed.

### **3. Unsupported General Expenses**

The statement of financial performance reflects expenditure of Kshs.8,822,594 under general expenses which, as disclosed in Note 4 to the financial statements, was incurred on various expenditure items. However, the balance includes expenditures totalling to Kshs.3,476,506 for which payment vouchers and related supporting documents were not provided for audit review.

In the circumstances, the accuracy and propriety of expenditure totalling to Kshs.3,476,506 could not be confirmed.

### **4. Unsupported Procurement of Policy Development and Rehabilitation Services**

During the year under review, the Fund engaged a consultant to develop a policy document for the County treatment and rehabilitation services at a contract sum of Kshs.1,200,000. However, a contract agreement and the relevant tender documents were not provided for audit review.

In the circumstances, the accuracy, completeness and validity of the expenditure of Kshs.1,200,000 could not be confirmed.

## **5. Unsupported Imprest**

The statement of financial performance reflects expenditure of Kshs.8,822,594 under general expenses which, as disclosed in Note 4 to the financial statements, includes three expenditures of Kshs.590,000, Kshs.1,492,200 and Kshs.1,731,400, totalling to Kshs.3,813,600, relating to travel costs, accommodation – domestic travel, and daily subsistence respectively. The expenditure was incurred in form of imprest. However, Management did not maintain an imprest register with details of date of issue, purpose and date of surrender. In addition, it was noted that surrendered imprests were not supported with warrants and travel documents. Further, an ageing analysis was also not provided.

In the circumstances, the accuracy and validity of the imprest totalling to Kshs.3,813,600 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakamega County Alcoholic Drinks Control Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts had an approved final revenue budget of Kshs.34,209,319 and actual revenue amount of Kshs.26,230,451 resulting to underfunding of Kshs.7,978,868 or 23% of the budget. Similarly, the statement reflects budgeted expenditure of Kshs.34,209,319 against actual expenditure of Kshs.31,799,708 thus resulting in under expenditure of Kshs.2,409,611 or 7% of the budget.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the public.

### **2. Unresolved Prior Year Matters**

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Non-Compliance with Public Sector Accounting Standards Board Requirements

The Fund submitted financial statements for audit during the financial year under review. However, it was noted that the financial statements did not contain the background information like the name of Board of Trustee/Fund Administration Committee, passport size photos, academic qualifications and related experience. This was contrary to the Public Sector Accounting Standards Board template.

In the circumstances, the Fund did not comply with the Public Sector Accounting Standards Board (PSASB) guidelines.

#### 2. Over-Expenditure on General Expenses

The statement of financial performance reflects expenditure of Kshs.8,822,594 on general expenses. However, records indicated that the expenditure amount included expenditures totalling to Kshs.7,972,830 incurred on various expenditure items where the individual expenditures exceeded the budget amounts by a total of Kshs.4,497,825, as shown below:

<b>Expenditure Summary</b>	<b>Expenditure (Kshs.)</b>	<b>Approved Budget (Kshs.)</b>	<b>Over-Expenditure (Kshs.)</b>
Water	119,810	36,721	83,089
Travel Cost	590,000	238,140	351,860
Accommodation-Domestic Travel	1,492,200	742,720	749,480
Daily Subsistence Allowance	1,731,400	830,008	901,392
Advertising, Awareness & Publicity	1,094,020	352,800	741,220

Boards	1,163,500	647,816	515,684
Contracted Professional Services	1,470,000	400,000	1,070,000
Maintenance of Motor Vehicles	311,900	226,800	85,100
<b>Total</b>	<b>7,972,830</b>	<b>3,475,005</b>	<b>4,497,825</b>

The over-expenditure contravened Regulations 42(1)(b) and 43(2) of the Public Finance Management (County Governments) Regulations, 2015. Management did not also seek the approval of the County Assembly as required.

In the circumstances, the Fund Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### Failure to Review Cash Book and Bank Reconciliation Statements

Review of the cash book and bank reconciliation statements of the Fund revealed that the two documents are not regularly reviewed for accuracy and completeness by senior officers. It was further noted that monthly bank reconciliation statements were not approved.

In the circumstances, existence of the expenditure controls on management of the cash book and bank statements could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and Administration Committee**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Administration Committee is responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015, and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015, and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**25 July, 2022**